

Message Text

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ACTION EB-08

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TO SECSTATE WASHDC PRIORITY 9677

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UNCLAS SECTION 01 OF 03 GENEVA 07499

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EB FOR WENDT; IO PLEASE PASS TO AMBASSADOR VANDEN HEUVEL

E.O. 11652: N/A

TAGS: UNCTAD EAID

SUBJECT: UNCTAD - COMMON FUND

UNCTAD SECRETARIAT HAS PREPARED FOLLOWING DISCUSSION NOTE
FOR CONSIDERATION AT INFORMAL MEETING MAY 18-19 (GENEVA
6871). WE WILL GIVE COPY TO HORMATS MORNING MAY 17 WHEN
HE TRANSITS GENEVA EN ROUTE TO BERN.

1. FUNDAMENTAL ELEMENTS OF THE COMMON FUND

A. OBJECTIVES AND PURPOSES

OBJECTIVES: IT HAS ALREADY BEEN AGREED THAT A COMMON FUND
SHOULD BE ESTABLISHED AS A NEW ENTITY TO SERVE AS A KEY
INSTRUMENT IN ATTAINING THE AGREED OBJECTIVES OF THE
INTEGRATED PROGRAMME FOR COMMODITIES EMBODIED IN UNCTAD
RESOLUTION 93(IV).

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THE GENERAL OBJECTIVE OF THE FUND WOULD BE TO IMPROVE
MARKET STRUCTURES IN INTERNATIONAL TRADE IN COMMODITIES OF
INTEREST TO DEVELOPING COUNTRIES AND TO FACILITATE THE
CONCLUSION AND FUNCTIONING OF INTERNATIONAL COMMODITY
AGREEMENTS AND ARRANGEMENTS.

2. PURPOSES: STOCKS. THE FUND WOULD FINANCE INTERNATIONAL STOCKS AND, UNDER SPECIFIED CONDITIONS, INTERNATIONALLY CO-ORDINATED NATIONAL STOCKS, WITHIN THE FRAMEWORK OF INTERNATIONAL COMMODITY AGREEMENTS AND ARRANGEMENTS.

IN SPECIAL SITUATIONS THE FUND WOULD ALSO FINANCE NATIONAL STOCKS AT THE REQUEST OF PRODUCING DEVELOPING COUNTRIES FOR COMMODITIES FACING DIFFICULTIES FOR WHICH THERE IS NO INTERNATIONAL COMMODITY ARRANGEMENT. IN SUCH CASES, APPROPRIATE MECHANISMS WOULD NEED TO BE SET UP FOR CONSULTATIONS AMONG THE PRODUCERS AND CONSUMERS OF THE COMMODITIES CONCERNED ON MATTERS SUCH AS PRICE RANGES, SIZE OF STOCKS, ETC. THIS COULD, FOR EXAMPLE, TAKE THE FORM OF CONSULTATIVE GROUPS.

3. OTHER MEASURES. THE FUND WOULD FINANCE MEASURES OTHER THAN STOCKING THROUGH A SEPARATE ACCOUNT (SECOND WINDOW).

SUCH FINANCING WOULD BE UNDERTAKEN WITHIN THE FRAMEWORK OF INTERNATIONAL COMMODITY AGREEMENTS AND ARRANGEMENTS OR APPROPRIATE MECHANISMS FOR CONSULTATIONS AMONG PRODUCERS AND CONSUMERS

A VIEW WOULD HAVE TO BE TAKEN ON THE QUESTION OF DEFINING THE SCOPE AND THE NATURE OF OTHER MEASURES TO BE FINANCED BY THE FUND.

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IN RESPECT OF THE FINANCING OF OTHER MEASURES, THE FUND WOULD PROMOTE THE CO-ORDINATION OF THE ACTIVITIES IN THIS FIELD OF INTERNATIONAL FINANCIAL INSTITUTIONS AND PROGRAMMES CONCERNED, SO AS TO PROVIDE A "COMMODITY FOCUS" AND TO AVOID DUPLICATION.

THE SECOND WINDOW WHEREVER APPROPRIATE WOULD SEEK TO UNDERTAKE CO-FINANCING OF PROJECTS AND WOULD MAKE ARRANGEMENTS WITH OTHER INSTITUTIONS FOR THE LATTER TO UNDERTAKE THE NECESSARY PRE-INVESTMENT WORK.

B. SOURCES OF FINANCE AND CAPITAL STRUCTURE.

4. THE SOURCES OF FINANCE WOULD INCLUDE:

- (I) DIRECT ASSESSED GOVERNMENT CONTRIBUTIONS TO THE FUND'S EQUITY CAPITAL;
- (II) VOLUNTARY CONTRIBUTIONS;
- (III) CASH CONTRIBUTIONS THROUGH THE ICAS;
- (IV) BORROWING.

4. DIRECT CONTRIBUTIONS. THERE NOW APPEARS TO BE AN ACCEPTANCE OF THE NEED FOR SOME DIRECT CONTRIBUTIONS TO THE

PAID-IN CAPITAL OF THE FUND TO SERVE CERTAIN SPECIFIED PURPOSES. IN THIS CONNEXION MENTION HAS BEEN MADE, FOR EXAMPLE, OF RESOURCES FOR MEETING THE ADMINISTRATIVE COSTS AND OVER HEADS AND OF THE IMPORTANCE OF ENSURING UNIVERSAL MEMBERSHIP. BESIDES THESE, THERE ARE SEVERAL OTHER PURPOSES FOR WHICH THE FUND WOULD NEED TO HAVE SUBSTANTIAL PAID-IN CAPITAL OF ITS OWN. THESE WOULD INCLUDE:

- (I) TO OVERCOME POSSIBLE LIQUIDITY PROBLEMS RESULTING FROM UNEXPECTED EVENTS, PARTICULARLY DURING THE EARLY STAGES OF ITS OPERATIONS;
- (II) TO FACILITATE BORROWING BY THE FUND ON THE CAPITAL MARKETS BY, INTER ALIA, STRENGTHENING THE ASSETS STRUCTURE,

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THEREBY IMPROVING THE CAPACITY OF THE FUND TO REPAY ITS DEBTS AND BY IMPROVING THE CREDIBILITY OF THE CALLABLE CAPITAL ITSELF CONTRIBUTED TO THE FUND;

- (III) TO ENABLE THE FUND TO OFFER COMPETITIVE TERMS WHEN LENDING TO ICAS.

IN THE LIGHT OF THE ABOVE REQUIREMENTS, IT WOULD SEEM THAT AN INITIAL PAID-IN CAPITAL OF THE ORDER OF \$500 MILLION WOULD BE DESIRABLE TO ESTABLISH A FINANCIALLY VIABLE FUND.

IT WOULD BE NECESSARY TO AGREE UPON A FORMULA FOR THE ASSESSMENT OF CONTRIBUTIONS TO THE PAID-IN CAPITAL. IN

THIS CONNECTION IT HAS BEEN SUGGESTED THAT A MINIMUM EQUAL AMOUNT BE PAID BY EACH MEMBER STATE WITH THE BALANCE TO BE CONTRIBUTED ON THE BASIS OF AN ABILITY TO PAY FORMULA; FOR EXAMPLE, THE FORMULA USED BY THE UNITED NATIONS COMMITTEE ON CONTRIBUTIONS WITH CERTAIN MODIFICATIONS.

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IN THE DETERMINATION OF THE AMOUNTS TO BE CONTRIBUTED TO THE CAPITAL OF THE FUND BY MEMBER STATES, ACCOUNT SHOULD BE TAKEN OF THE SPECIAL POSITION OF THE LEAST DEVELOPED AMONG DEVELOPING COUNTRIES, THROUGH PARTIAL OR TOTAL EXEMPTION FROM THE PAYMENT OF ASSESSED CONTRIBUTIONS OR FROM THE PAYMENT OF SUCH CONTRIBUTIONS IN CONVERTIBLE CURRENCIES.

5. VOLUNTARY CONTRIBUTIONS. THE FUND WOULD BE AUTHORIZED TO RECEIVE VOLUNTARY CONTRIBUTIONS IN ADDITION TO ASSESSED CONTRIBUTIONS TO THE FUND'S PAID-IN CAPITAL.

6. CASH CONTRIBUTIONS THROUGH THE ICAS. THE PROPOSALS PUT FORWARD BOTH BY THE GROUP OF 77 AS WELL AS GROUP B ENVISAGE THE POSSIBILITY OF CONTRIBUTIONS LINKED TO THE ESTABLISHMENT OF ICAS AND THEIR ASSOCIATION WITH THE FUND. THE PROPOSAL PUT FORWARD BY THE GROUP OF 77 FOR THE BASIS OF CONTRIBUTIONS TO THE FUND INCLUDES AN ELEMENT BASED ON TRADE SHARES WHICH COULD BE CONTRIBUTED PARI PASSU WITH THE CONCLUSION OF ICAS. THE GROUP B PROPOSAL ENVISAGES DEPOSITS BY ICAS TO THE EXTENT OF 75 PER CENT OF THEIR MAXIMUM FINANCIAL REQUIREMENTS. HOWEVER, IT WOULD BE DESIRABLE IN THE CONTEXT OF FINANCING COMMODITY STOCKS TO MINIMIZE THE CASH BURDEN ON GOVERNMENTS AND TO MAKE MAXIMUM USE OF THE POSSIBILITIES OF SOUND BORROWING.

THE SIZE OF CASH CONTRIBUTIONS THROUGH THE ICAS SHOULD THEREFORE BE KEPT AT A SUFFICIENTLY LOW LEVEL, TAKING INTO ACCOUNT FACTORS SUCH AS THE SIZE OF THE INITIAL PAID-IN CAPITAL, THE CASH/BORROWING RATIO, THE ATTRACTIVENESS TO ICAS AND THE NEED FOR MAINTAINING THE FINANCIAL VIABILITY OF THE FUND. A PROPERLY CONSTITUTED COMMON FUND EQUIPPED WITH THE REQUISITE BORROWING INSTRUMENTS WOULD BE ABLE TO RAISE SUFFICIENT RESOURCES THROUGH BORROWING TO BE ABLE TO

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LEND TO ICAS 75 PER CENT OF THEIR FINANCIAL REQUIREMENTS FOR STOCKING (SEE SECTION 4 BELOW). IT IS THEREFORE POSSIBLE TO ENVISAGE A FINANCIALLY VIABLE CAPITAL STRUCTURE

ALONG THE FOLLOWING LINES:

- (I) THE INITIAL PAID-IN CAPITAL OF THE FUND WOULD BE \$500 MILLION AS ENVISAGED IN SECTION 1 ABOVE;
- (II) UPON THE CONCLUSION OF AN ICA, THE PARTICIPATING GOVERNMENTS WOULD CONTRIBUTE TO THE ICA 25 PER CENT OF THE FINANCIAL REQUIREMENTS FOR STOCKING IN CASH;
- (III) 75 PER CENT OF THE FINANCIAL REQUIREMENTS WOULD BE PLEDGED TO THE COMMON FUND IN THE FORM OF CALLABLE CAPITAL (SEE PARAS. 21 AND 22 BELOW).
- (IV) IT IS EXPECTED THAT THE ICAS WOULD USE THE FUND AS THEIR ONLY BANKER. THEY SHOULD THUS DEPOSIT ANY LIQUID CASH WITH THE FUND AND WHEN BORROWING FROM THE FUND PLEDGE TO IT THE WARRANTS IN RESPECT OF STOCKS ACQUIRED BY THEM. THE FUND WOULD UNDERTAKE TO MAKE AVAILABLE TO THE ICAS LOANS TO THE EXTENT OF 75 PER CENT OF THEIR FINANCIAL REQUIREMENTS FOR STOCKING.

THE MERITS OF SUCH A CAPITAL STRUCTURE WOULD BE:

- (I) THE CASH BURDEN ON PARTICIPANTS IN THE ICAS WOULD BE CONSIDERABLY REDUCED; THIS WOULD BE IN THE INTEREST OF ALL COUNTRIES AND WOULD BE OF PARTICULAR IMPORTANCE TO DEVELOPING COUNTRIES;
- (II) THE FUND WOULD BE IN A POSITION TO FULFILL ITS OBJECTIVE OF FACILITATING THE CONCLUSION OF ICAS AS THE PARTICIPANTS WOULD NEED TO RAISE ONLY ONE FOURTH OF THE FINANCIAL REQUIREMENTS FOR STOCKING IN CASH AND THEY WOULD HAVE THE PRIOR ASSURANCE OF SECURING THE BALANCE FROM THE FUND ON REASONABLE TERMS.

THERE APPEARS TO BE GENERAL AGREEMENT THAT THE CONTRIBUTIONS TO THE ICAS WOULD BE ASSESSED ON THE BASIS OF THE PRINCIPLE OF MANDATORY JOINT FINANCING BY PRODUCERS AND CONSUMERS.

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7. BORROWING. THE FUND WOULD HAVE THE AUTHORITY TO RAISE ADDITIONAL RESOURCES THROUGH BORROWING FROM MEMBER GOVERNMENTS, INTERNATIONAL FINANCIAL INSTITUTIONS AND CAPITAL

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MARKETS TO BE ABLE TO MAKE AVAILABLE TO ICAS AMOUNTS
REQUIRED BY THEM FOR THE FINANCING OF STOCKS.

THE ABILITY OF THE FUND TO RAISE SUBSTANTIAL RESOURCES
THROUGH BORROWING ON THE CAPITAL MARKETS WOULD DEPEND ON
ITS IMAGE AS A FINANCIALLY VIABLE INSTITUTION BACKED BY THE
INTERNATIONAL COMMUNITY AS A WHOLE. IN ASSESSING ITS
CREDITWORTHINESS, LENDERS WOULD RELY MAINLY ON THE CALLABLE
CAPITAL AVAILABLE TO THE FUND EXCLUSIVELY TO MEET THE
OBLIGATIONS ARISING FROM ITS BORROWING. THEY WOULD ALSO
TAKE INTO ACCOUNT THE AVAILABILITY OF STOCK WARRANTS
PLEDGED TO THE FUND BY THE ICAS AS COLLATERAL.

THE CALLABLE CAPITAL SHOULD BE PLEDGED DIRECTLY TO THE
COMMON FUND. THIS IS IMPORTANT BECAUSE:

(I) LENDERS TO THE FUND WOULD BE ASSURED THAT ALL FUND
BORROWINGS WOULD BE GUARANTEED BY ITS AGGREGATE CALLABLE
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CAPITAL; THIS WOULD FACILITATE ITS BORROWING;
(II) FROM THE POINT OF VIEW OF MEMBER GOVERNMENTS, THE
RISK WOULD BE SPREAD OVER ALL THE ICAS ASSOCIATED WITH THE
FUND; THERE WOULD BE LESS RISK OF THE CALLABLE CAPITAL
BEING ACTUALLY CALLED UP;
(III) SUCH CALLABLE CAPITAL WOULD CONSTITUTE A STEADIER
ELEMENT OF THE FUND'S CAPITAL STRUCTURE THAN A PORTFOLIO OF
GOVERNMENT GUARANTEES WHOSE COMPOSITION WOULD VARY ACCORDING
TO THE BORROWING NEEDS OF INDIVIDUAL ICAS. LENDERS TO THE
FUND WOULD THUS BE IN A BETTER POSITION TO JUDGE THE FUND'S
CREDITWORTHINESS;

(IV) THE EXISTENCE OF QUICK PROVISIONS FOR EARLY RECOURSE TO CALLABLE CAPITAL IS A KEY ELEMENT IN DETERMINING THE FUND'S CREDITWORTHINESS. IN THE CASE OF CALLABLE CAPITAL CONTRIBUTED TO ICAS, GOVERNMENT GUARANTEES WOULD BE ONE STEP REMOVED FROM THE LENDERS.

8. SECOND WINDOW. IT WOULD BE DESIRABLE FOR THE SECOND WINDOW TO START WITH SOME RESOURCES OF ITS OWN. SINCE A NUMBER OF GOVERNMENTS HAVE ALREADY PLEDGED CONTRIBUTIONS TO THE COMMON FUND OR HAVE INDICATED THEIR READINESS TO DO SO, IT SHOULD BE POSSIBLE TO MAKE AVAILABLE AN AMOUNT OF \$200 - 300 MILLION TO THE SECOND WINDOW UPON THE ESTABLISHMENT OF THE FUND.

THE RESOURCES OF THE SECOND WINDOW WOULD REMAIN OPEN FOR ADDITIONAL CONTRIBUTIONS.

C. ORGANIZATION, MANAGEMENT AND VOTING

9. ORGANIZATION AND MANAGEMENT. THE ORGANIZATIONAL STRUCTURE OF THE FUND WOULD INCLUDE A BOARD OF GOVERNORS, A BOARD OF DIRECTORS, A MANAGING DIRECTOR AND SUCH OTHER STAFF

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AS MAY BE NECESSARY TO CARRY OUT ITS FUNCTIONS.

10. VOTING. DECISIONS OF THE BOARD OF GOVERNORS AS WELL AS OF THE BOARD OF DIRECTORS WOULD NORMALLY BE TAKEN BY A SIMPLE MAJORITY OF THE TOTAL NUMBER OF VOTES CAST. PROVISION MAY BE MADE FOR DECISIONS ON CERTAIN SPECIFIED MATTERS TO BE TAKEN BY QUALIFIED MAJORITIES.

THE VOTES WOULD HAVE TO BE DISTRIBUTED AMONG THE MEMBERS OF THE FUND PARTLY ON THE BASIS OF THE EQUALITY PRINCIPLE AND PARTLY ON THE BASIS OF THE PROPORTIONALITY PRINCIPLE. THE RELATIVE WEIGHTS TO BE ATTACHED TO THE EQUALITY AND PROPORTIONALITY PRINCIPLES WOULD NEED TO BE DISCUSSED AND AGREED UPON. SORENSON

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